

Message Text

UNCLASSIFIED

PAGE 01 SEOUL 06633 01 OF 02 090713Z

ACTION EA-09

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 PA-02 AGRE-00 PRS-01 L-03 H-02

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R 090450Z AUG 77

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 5594

INFO USMISSION GENEVA

AMCONSUL HONG KONG

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

UNCLAS SECTION 1 OF 2 SEOUL 6633

GENEVA FOR USMTN

E.O. 11652: N/A

TAGS: ETRD, EFIN, MTN, GATT, KS

SUBJECT: KOREA'S ECONOMY BEGINS TO PERK UP

REF: SEOUL 5696

SUMMARY: LATEST INDICATORS RELEASED BY ECONOMIC PLANNING BOARD SHOW INCREASED VIGOR IN THE KOREAN ECONOMY. INDUSTRIAL PRODUCTION IN JUNE ROSE 7.4 PERCENT, THE BEST GAIN TO DATE THIS YEAR. COMMODITY EXPORTS IN JULY TOTALED \$906 MILLION BRINGING THE YEAR'S TOTAL TO \$5.5 BILLION. HOWEVER, BOTH THE RATE OF GROWTH IN EXPORTS AND L/C ARRIVALS CONTINUES TO DECLINE. THE BALANCE OF PAYMENTS SITUATION, ON THE OTHER HAND, COULDN'T BE BETTER; DESPITE SHORT TERM CAPITAL OUTFLOWS FOREIGN EXCHANGE HOLDINGS WERE UP \$152 MILLION IN JULY WITH TOTAL AT AN ALL TIME PEAK OF \$3,667 MILLION. MONEY SUPPLY ADVANCED 3.6 PERCENT IN JULY AS A RESULT OF FOREIGN EXCHANGE

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 SEOUL 06633 01 OF 02 090713Z

INFLOWS BUT PRICES, DUE LARGELY TO GOVERNMENT CONTROLS, WERE STABLE. END SUMMARY

1. AFTER REMAINING RELATIVELY STEADY FOR THE FIRST PART OF 1977, THE KOREAN ECONOMY IS SHOWING SIGNS OF RENEWED VIGOR. INDUSTRIAL PRODUCTION IN JUNE ROSE 7.4 PERCENT (8.3 PERCENT SEASONALLY ADJUSTED) FROM MAY AND IS NOW 13.1 PERCENT ABOVE THE

FIRST SIX MONTH LEVELS OF 1976. MANUFACTURING INDEX WAS UP 7.8 PERCENT FROM MAY WITH SHIPMENTS INCREASING BY 7 PERCENT. THE JUNE PERFORMANCE IS BY FAR THE MOST IMPRESSIVE THIS YEAR. MOREOVER THESE ARE INDICATIONS OF A RENEWAL IN CONSTRUCTION ACTIVITY. COMMERCIAL CONSTRUCTION PERMITS WERE UP A SHARP 32 PERCENT IN JUNE AND INDUSTRIAL CONSTRUCTION PERMITS INCREASED BY 6.2 PERCENT FROM MAY LEVELS. ALTHOUGH HOUSING REMAINS WEAK -- PERMITS WERE DOWN 1.2 PERCENT FROM MAY -- THE DOWNWARD TREND MAY BE LEVELING OFF. AS A RESULT OF THE ABOVE, THE OVERALL WARNING INDICATOR ADVANCED FOR THE FIRST TIME THIS YEAR TO 1.6 AFTER REMAINING STAGNANT AT 1.4 SINCE FEBRUARY.

2. THE FOREIGN TRADE PICTURE REMAINS GOOD BUT NOT SPECTACULAR. COMMODITY EXPORTS (MCI SERIES) AMOUNTED TO \$906 MILLION IN JULY, BRINGING THE JANUARY-JULY TOTAL TO \$5,503 MILLION. AS A RESULT EXPORTS FOR THE FIRST SEVEN MONTHSWERE UP 31.9 PERCENT COMPARED TO THE CORRESPONDING PERIOD OF 1976. HOWEVER THE RATE OF INCREASE APPEARS TO BE DECLINING: IN MAY THE PERCENTAGE GAIN WAS 36.8 PERCENT AND 33.4 PERCENT IN JUNE. L/C ARRIVALS ARE ALSO IN A DOWNTREND TALLING \$755.7 MILLION IN JULY (\$740 MILLION SEASONALLY ADJUSTED) OR A DECLINE OF 0.2 PERCENT FROM JUNE AND SHOWING ONLY A 21 PERCENT GAIN OVER THE FIRST SEVEN MONTHS OF 1976. THE KOREAN TRADERS ASSOCIATION HAS PROJECTED EXPORTS FOR THE PERIOD JULY THROUGH SEPTEMBER AT \$2.7 BILLION, AN 18 PERCENT INCREASE FOR THE THIRD QUARTER OVER THAT OF 1976.

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 SEOUL 06633 01 OF 02 090713Z

3. FOREIGN EXCHANGE FINANCED IMPORTS, NEARLY 90 PERCENT OF THE TOTAL, DECLINED 10.9 PERCENT TO \$717.8 MILLION IN JULY AND ARE 24.5 PERCENT ABOVE THE TOTAL FOR THE CORRESPONDING PERIOD LAST YEAR (\$4,638 MILLION). IMPORT LICENSES, HOWEVER, INCREASED BY 6.1 PERCENT OVER JUNE TO \$835.6 MILLION (\$887 MILLION SEASONALLY ADJUSTED) AND SHOW A GAIN OF 36.2 PERCENT OVER THE FIRST SEVEN MONTHS OF 1976.

4. AT THE PRESENT TIME KOREA'S BALANCE OF PAYMENTS PICTURE HARDLY EVER LOOKED BETTER. AS A RESULT OF ANOTHER MONTH'S EXCELLENT CURRENT ACCOUNT PERFORMANCE, FOREIGN EXCHANGE HOLDINGS INCREASED \$152 MILLION IN JULY TO A NEW RECORD OF \$3,667 MILLION DESPITE A SMALLER NET CAPITAL OUTFLOW OF \$32 MILLION DURING THE MONTH. FOREIGN EXCHANGE RECEIPTS FOR THE FIRST SEVEN MONTHS (EXPORTS PLUS SERVICE) NOW TOTAL \$6,997 MILLION, INCLUDING \$1,677 MILLION IN SERVICE RECEIPTS (THE LATTER UP 96 PERCENT FOR THE JANUARY-JULY PERIOD) COMPARED TO PAYMENTS OF \$5,879 MILLION. DESPITE A NET CAPITAL OUTFLOW OF \$411 MILLION, FOREIGN EXCHANGE HOLDINGS HAVE INCREASED BY \$706 MILLION SINCE DECEMBER 1976.

5. THE EXCELLENT FOREIGN EXCHANGE PERFORMANCE, ON THE OTHER HAND, CONTINUES TO PROVIDE PROBLEMS FOR THE MONETARY MANAGERS. THE MONEY SUPPLY GREW BY 62.8 MBILLION WON (\$130 MILLION) OR 3.6 PERCENT IN JULY AND IS NOW 16.5 PERCENT ABOVE DECEMBER AND 39.8 PERCENT ABOVE JULY 1976 LEVELS. SINCE DECEMBER THE FOREIGN ASSET COMPONENT OF THE MONEY SUPPLY HAS INCREASED BY 102 PERCENT COMPARED TO ONLY 8.3 PERCENT FOR THE PRIVATE SECTOR. A TIGHT MONETARY POLICY HAS BEEN EVIDENT FOR MOST OF THE YEAR WITH THE BANK OF KOREA FREEZING 178.7 BILLION WON IN BANKING INSTITUTIONS' ASSETS IN THE MONETARY STABILIZATION ACCOUNTS SINCE MAY. AS A RESULT BANK LOANS TO THE PRIVATE SECTOR HAVE SLOWN DOWN WHILE LOANS BY NON-BANKING INSTITUTIONS ARE REPORTED TO BE GROWING RAPIDLY. THE FINANCE MINISTRY PLANS TO FLOAT 10-20 BILLION IN SHORT TERM STABILIZATION BONDS IN SEPTEMBER

UNCLASSIFIED

UNCLASSIFIED

PAGE 04 SEOUL 06633 01 OF 02 090713Z

TO HELP STEM THE MONETARY GROWTH.

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PAGE 01 SEOUL 06633 02 OF 02 090717Z

ACTION EA-09

INFO OCT-01 IO-14 AID-05 CIAE-00 COME-00 EB-08 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

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INFO USMISSION GENEVA

AMCONSUL HONG KONG

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AMEMBASSY TOKYO

UNCLAS SECTION 2 OF 2 SEOUL 6633

6. SAVINGS HAVE DEMONSTRATED A REMARKABLE UPSURGE THIS YEAR. TO DATE TOTAL SAVINGS HAVE REACHED 1,122.3 BILLION WON (2,318 MILLION) OR 70 PERCENT OF THE TARGETED 1,600 BILLION WON (\$3.3

BILLION).

SAVINGS DEPOSITS AT BOTH BANKS AND NON-BANKING FINANCIAL INSTITUTIONS TOGETHER WITH SHORT-TERM MONEY MARKET INSTRUMENTS HAVE BEEN ESPECIALLY STRONG. GOVERNMENT FINANCE HAS ALSO SHOWN A CREDITABLE PERFORMANCE WITH A SURPLUS OF 101.8 BILLION WON (\$210 MILLION) ON THE GENERAL BUDGET ACCOUNT AND 53 BILLION WON (\$109 MILLION) INCLUDING SPECIAL ACCOUNT AND FUND. HOWEVER, THE SURPLUS IS ONLY ABOUT HALF THAT REGISTERED AT THIS TIME A YEAR AGO.

7. DESPITE THE MONETARY GROWTH, PRICES IN JULY WERE FAIRLY STABLE. WHOLESALE PRICES INCREASED BY 0.5 PERCENT IN JUNE AND ARE UP 6.2 PERCENT SINCE DECEMBER. AGRICULTURAL PRODUCTS HAVE BEEN THE PRINCIPAL CULPRIT IN RAISING BOTH WHOLESALE AND RETAIL PRICES SO FAR THIS YEAR. SINCE DECEMBER WHOLESALE FOOD PRODUCTS HAVE INCREASED BY 12.5 PERCENT COMPARED TO 3.5 PERCENT

UNCLASSIFIED

PAGE 02 SEOUL 06633 02 OF 02 090717Z

FOR ALL OTHER ITEMS. THE CONSUMER PRICE INDEX WAS UP 1.3 PERCENT IN JULY (8.1 PERCENT SINCE DECEMBER). EXCEPT FOR FOOD -- UP 2.9 PERCENT -- ALL OTHER ITEMS ON THE CONSUMER INDEX DECLINED AS A RESULT OF VIGOROUS GOVERNMENT CONTROLS IMPOSED PRIOR TO THE VAT WHICH WAS INAUGURATED JULY 1.

8. COMMENT: OVERALL, THE KOREAN ECONOMY CONTINUES TO DEMONSTRATE A CREDITABLE PERFORMANCE. ON PROBLEM AREA APPEARS TO BE THE CONTINUING DECELERATION IN BOTH COMMODITY EXPORTS AND L/C ARRIVALS. TO DATE THIS HAS BEEN OFFSET BY A BETTER THAN EXPECTED INVISIBLES COMPONENT OF THE B.O.P. NOW PROJECTED AT NEARLY \$3 BILLION FOR 1977. THE PICKUP IN COMMERCIAL AND INDUSTRIAL CONSTRUCTION PERMITS TOGETHER WITH AN UPTREND IN MACHINERY IMPORTS LICENSING MAY PRESAGE AN UPSWING IN INVESTMENT ACTIVITY. A REAL PROBLEM, HOWEVER, REMAINS FOR THE GOVERNMENT TO COPE SUCCESSFULLY WITH THE EMBARRASSING GROWTH IN FOREIGN EXCHANGE HOLDINGS AND RESTRAIN MONETARY GROWTH WITHOUT RESTRICTING THE ECONOMY BY AN OVERLY TIGHT MONETARY POLICY.

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